

keeping CURRENT

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HEADS UP: THE NORTHWEST CHAPTER GOES TO CONGRESS

What does it mean to the Northwest when the Clinton administration proposes national legislation to restructure the power industry?

Maybe quite a lot.

The administration is proposing a bill that addresses key Northwest electrical power issues. At the same time it is protecting by not changing fundamental power principles important to the Northwest:

- A preference for Pacific Northwest users to buy power from federal resources located in the Northwest.
- Rates based on the cost to produce power, which in the Northwest is low, rather than on what the market will bear.
- Priority rights for not-for-profit public agencies.

The goal is to foster free and open wholesale competition without affecting the benefits of the Federal Columbia River Power System.

The key is the transmission grid.



The administration's Comprehensive Electricity Competition Plan would subject the Bonneville Power Administration's transmission system to Federal Energy Regulatory Commission rules now followed by investor-owned utilities, with adjustments to fit BPA's special characteristics.

BPA owns more than three-fourths of the region's high-voltage power grid, so having it follow the rules

The administration's proposal focuses on transmission.

that apply to other transmission owners will help create an even playing field and foster a free, open and competitive wholesale power market.

The administration's proposal focuses on transmission, not BPA power sales. Nor does it address privatization of BPA or moving to market-based rates. Currently, BPA rates are cost-based; that is, BPA charges just what it needs to cover its costs, and this means BPA's rates are below the market.



Guaranteeing continued open and impartial access to BPA's transmission grid will help increase confidence in competitive wholesale power markets, foster competition and keep prices down.

THE NORTHWEST
STAKE IN
THE NATIONAL
POWER DEBATE

The Northwest has a great deal at stake in the national power restructuring debate. The region's electric system, and much of its economy, is founded on the Northwest's defining natural resource, the vast power of the Columbia River. The Columbia is managed as a public resource for many public benefits, from irrigation to power production, navigation to flood control, recreation to protection of its fish and wildlife.

BPA sells electricity from the Columbia River system at wholesale, at cost to encourage the widest possible use of the river's power. If the Northwest is to maintain its cost-based rates and regional preference to Columbia River power, it must continue to pay the full costs of the system.

The administration's revised Comprehensive Electricity Competition Plan includes a Northwest chapter with a mechanism to assure that the Northwest can pay its full costs even in the unlikely event that BPA's power costs rise above market prices.

People who live in the Northwest have a direct interest in both the economic and environmental qualities of the Columbia River system. Northwest residential consumers pay roughly five cents per kilowatt-hour at retail for electricity on average. They enjoy the benefits of clean air from a non-polluting hydro base.

Federal taxpayers do not subsidize BPA. BPA recovers all its costs through sales of power and transmission. Northwest ratepayers also are repaying with interest the federal investment in their power system through their electric bills. And they are paying to enhance fish and wildlife protection through their electricity bills.

NATIONAL DEBATE
WELL UNDER WAY

Restructuring the power industry is a national concern. The national average residential power rate is more than eight cents per kilowatt-hour. Power industry restructuring is expected to bring costs down and create the same explosion of products and services seen in long-distance telephone deregulation.

The National Energy Policy Act of 1992 launched industry restructuring, starting with the wholesale power market. Since then, a number of states have passed restructuring legislation, and most of the rest are considering the issue. In California, for example, all consumers now choose among competing power suppliers. In the Northwest, Montana has passed restructuring legislation, and the issue is under discussion in the state legislatures of Idaho, Oregon and Washington.

More than 20 power restructuring bills were introduced in the last Congress. At least that many are expected to be introduced this year. The debate will likely be vigorous.

Active congressional discussion is refining the national thinking on power structure issues. If the Northwest wishes to have its values reflected in legislation that emerges from the debate, it should make its views known now.

WRITING THE
NORTHWEST CHAPTER

In 1996, the four governors of the Northwest states held a year-long public review of how the region's electricity system should be structured in a deregulated environment. Participants in the review were chosen to represent a broad spectrum, including utilities, environmental groups, businesses and industries, state agencies and public interest groups, to ensure that the region's values would be reflected in the review's final recommendations.

BPA FOLLOWS NATIONAL
AND REGIONAL DIRECTION

BPA's actions support the conclusions of the Northwest governors' 1996 Comprehensive Review of the Northwest Energy System and of the national drive toward a competitive power industry.

In transmission, restructuring has so far largely been defined by the 1996 orders No. 888 and 889 of the Federal Energy Regulatory Commission. BPA is not technically subject to these orders but has fully complied with them in letter and spirit to demonstrate its commitment to providing an open, non-discriminatory, common-carrier transmission system. BPA's open access transmission tariff, effective through 2001, has been fully approved by FERC.

On the power side, the Comprehensive Review called for the power subscription process that BPA is now conducting. As a wholesaler, BPA's power marketing became subject to open competition after the 1992 National Energy Policy Act. BPA cut its costs and staff substantially to meet the competition. As a result, the crucial question for subscription now is how to share the benefits of the federal system.

This Comprehensive Review concluded with many recommendations that were based on the region retaining the benefits of the Columbia River power system. The review also concluded that BPA should be required to provide fair, non-discriminatory access to its transmission system to promote competition in wholesale power markets.

After the review, the governors created a Transition Board to monitor implementation of the review's recommendations. Continuing discussions through the Transition Board address issues the Comprehensive Review had suggested might require legislation. Many members of the region's congressional delegation also have put in substantial time working through complex issues. This regional discussion, together with the work of the Northwest congressional delegation, helped to produce the ideas in the administration's Northwest chapter.

WHAT'S IN THE NORTHWEST CHAPTER

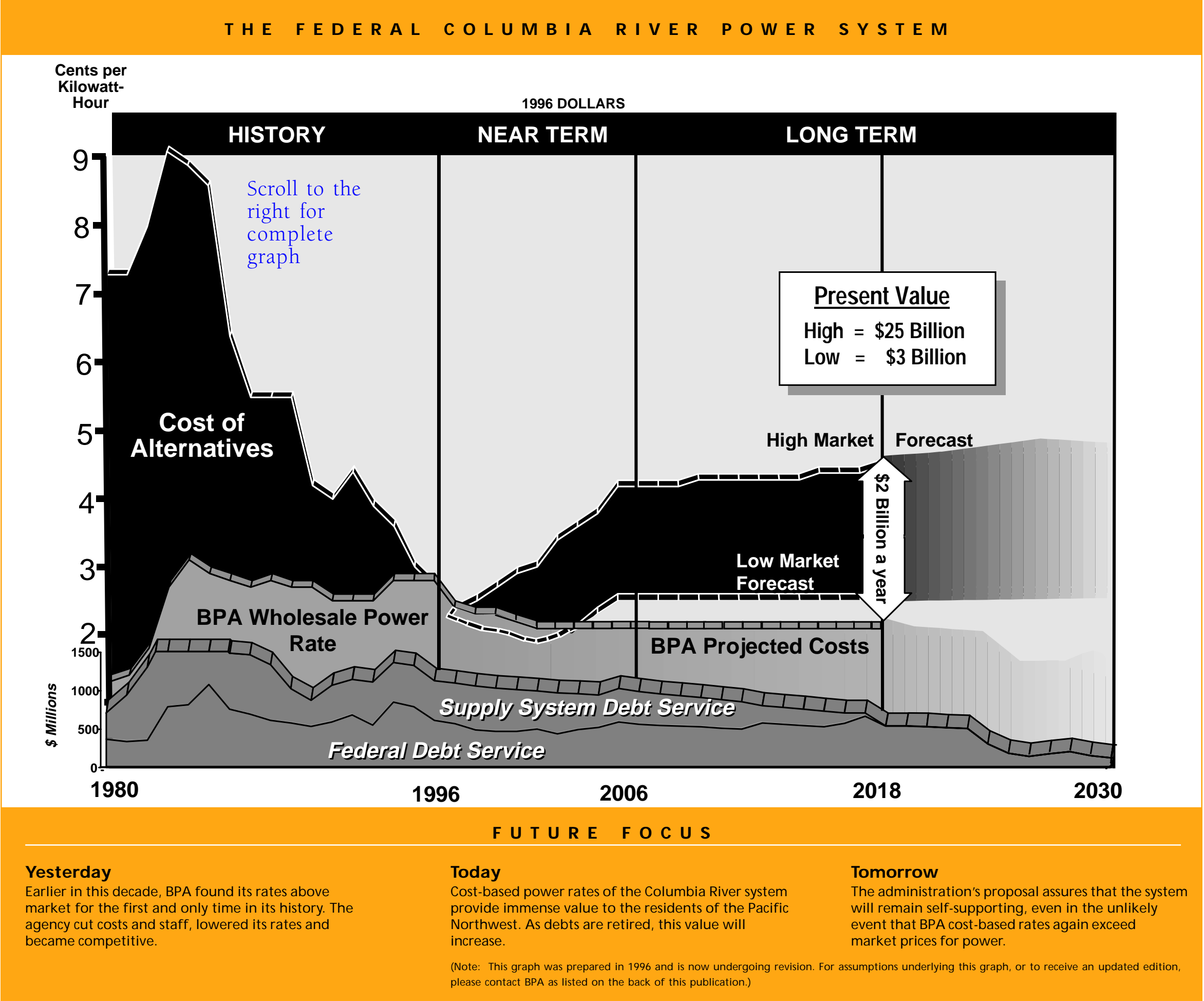
There are three main parts to the administration's proposal for the Northwest.

1. Application of the Federal Power Act to BPA's transmission system. The administration's plan proposes that the Federal Energy Regulatory Commission review and approve BPA's transmission rates, terms and conditions. This would shift authority from the BPA administrator to FERC and give FERC oversight of BPA comparable to what it now has over investor-owned utilities' transmission.

FERC oversight is intended to ensure open and non-discriminatory operation of BPA's transmission system. It supports impartial, non-discriminatory access to BPA's transmission grid, and further assures that BPA's power business receives no unwarranted favoritism over other transmission users. Such open and impartial access is important to foster the competition that will bring and keep prices down.

FERC's authority over BPA's provision of transmission service will be subject to assurances that cost shifts will be phased in, rural consumers are protected, transmission practices that protect fish are maintained and the U.S. Treasury is repaid.

2. Authority to participate in a regional transmission organization. FERC commissioners have said their next step is to encourage or require utilities to consolidate operation of their grids in regional transmission



organizations. RTOs would run the grid independent of utilities' power businesses. The goal is to increase efficiency and bring down prices by ensuring that utilities gain the cheapest and most efficient access to transmission, regardless of who owns it.

The administration's proposal would give BPA clear authority to participate in an RTO and would also give FERC authority to require BPA's participation in an RTO, as long as the conditions for participation are not inconsistent with the other responsibilities and policies applicable to the transmission system. Since BPA owns more than three-fourths of the high-voltage transmission in the Northwest, it is doubtful an RTO could succeed without BPA participation.

Federal Power Act application to BPA's transmission and clarification of BPA's ability to participate in a Regional Transmission Organization add to the steps that have already been taken to make consumers better off in the Northwest. Both actions will guarantee that BPA's transmission will remain open, accessible and non-discriminatory. These steps will strengthen confidence in the competitive power market that uses the grid. As more entities participate in the market, increased competition will reduce costs to consumers.

The proposal will guarantee that BPA's transmission will remain open, accessible and non-discriminatory.

Applying the Federal Power Act to BPA transmission solidifies the gains already made under BPA's voluntary compliance with recent FERC direction. The Regional Transmission Organization provisions look ahead to potential future changes in the ownership and structure of transmission grids nationwide, and assure that the Northwest will be well-positioned to participate in consolidations that offer greater efficiency and lower cost.

3. Limited cost-recovery mechanism. The administration's proposal includes a limited ability to surcharge BPA's transmission should power rates be unable to recover costs in a timely way. This would occur if BPA prices rose above market prices. The surcharge would be capped at \$100 million a year and limited to no more than \$600 million total over 15 years.

Benefits from Columbia River dams would continue to flow to Northwest residents.

The surcharge would be a loan from transmission to BPA's Power Business Line, which the Power Business Line would have to repay with interest. This would help assure timely repayment of the debt to the U.S. Treasury, including costs for dams, fish and wildlife, conservation and renewable resources, while minimizing the impacts on the development of a competitive wholesale power market.

BPA believes the likelihood of having stranded costs is very low, but having a mechanism that assures BPA will meet its Treasury payment is important to demonstrate to the rest of the nation that Northwest ratepayers fully pay their own way. This is also a critical element in retaining cost-based rates.

WHAT'S NOT IN THE NORTHWEST CHAPTER: REGIONAL ISSUES

The administration's proposal would not in itself make BPA's transmission grid part of a regional transmission organization. It simply makes clear BPA's ability to participate in an RTO as one emerges.

BPA's power business is not addressed. The benefits from federal dams will continue to flow to Northwest residents.



The administration's proposal retains the Northwest's first call on power from the clean hydroelectric base of the Columbia River system.

The administration's proposal leaves fish and wildlife responsibilities unchanged. Last year, the administration announced fish and wildlife principles to be applied to BPA's power rates for 2002-2006. These fish funding principles provide that BPA will structure its rates to have a high probability of meeting its obligations, including fish and wildlife, whatever those turn out to be, without predetermining the outcome of the regional and national debate on how best to restore endangered salmon runs.

WHAT'S NOT IN THE NORTHWEST CHAPTER: NATIONAL ISSUES

By addressing only those issues the 1996 Comprehensive Review called out as requiring legislation, the administration's proposal fulfills the principal finding of the Comprehensive Review – to provide the Pacific

Northwest the opportunity to retain the benefits of resources within the region.

The administration's proposal retains BPA's cost-based rates and regional preference in BPA power sales. It recognizes that the Northwest power system is structured around the Columbia River, and that the region and the nation greatly benefit from this system.

The administration's proposal also would not affect public preference. This is a significant issue in the national debate, and is exceptionally important to the Pacific Northwest due to the large share of the populace served by publicly owned utilities.

Nationally, the administration expects restructuring will save consumers \$20 billion a year. Part of the means of assuring that all areas of the nation benefit from restructuring is retaining those aspects of the existing system that serve the public interest well.

THE FOCUS SHIFTS TO D.C.

The administration's Comprehensive Electricity Competition Plan now goes to Congress, where it will be considered along with other legislation. It will be

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debated in congressional committees. Congress will decide how much of the administration's bill to adopt.

The Pacific Northwest has a tradition of solving problems by working together as a region. The Northwest congressional delegation has displayed a proactive bipartisan approach to preserving and enhancing the resources of the federal Columbia River system for the

region. The administration actively supports the Northwest's spirit of cooperation and self-sufficiency. The administration's proposal is designed to foster the Northwest's participation in the great national move toward lower power prices and free competition, while maintaining the Northwest's economic engine, the Columbia River power system.

TO LEARN MORE

The full Comprehensive Electricity Competition Plan is available on the U.S. Department of Energy Web site at <http://home.doe.gov/>

General information on legislation before Congress is available on the Web at the THOMAS Web site at <http://thomas.loc.gov/>

Information on the Comprehensive Review is available from the Northwest Power Planning Council at 1-800-222-3355, or on the Web at <http://www.nwppc.org/engissu.htm>

Or contact BPA at 1-800-622-4519 or on the Web at <http://www.bpa.gov>

